

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01
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FM AMEMBASSY BERN

TO SECSTATE WASHDC 4352

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY VIENNA

AMCONSUL ZURICH

UNCLAS BERN 2194

PASSTREASURY AND FRB

VIENNA FOR ELLIS

EO 11652: NA

TAGS: EFIN SZ

SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MAY 8-14

1. SUMMARY: NEW ANNOUNCEMENTS ON CREDIT SUISSE CHIASSO
BRANCH PROBLEMS SEEM TO HAVE HELPED CALM FINANCIAL
MARKETS. SWISS FRANC FIRMED SLIGHTLY AGAINST THE DOLLAR.
INTEREST RATES ROSE. SECOND QUARTER ECONOMIC OUTLOOK IS
SOMEWHAT MORE POSITIVE IN LIGHT OF INCREASED FIRST QTR
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IMPORTS AND RETAIL SALES. GOVT REQUESTED SMALL SUPPLE-
MENTAL 1977 BUDGET. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: MARKET WAS SLIGHTLY
NERVOUS WITH MINOR RATE FLUCTUATIONS. DOLLAR RATE AGAINST
SWISS FRANC EASED SLIGHTLY. STRONGER FRANC REFLECTED
HIGHER INTEREST RATES AND ANNOUNCEMENT OF RECORD SF 8.6

BILLION SWISS 1976 CURRENT ACCOUNT SURPLUS. GOLD PRICE
 REMAINED STEADY AND MODEST OFFER WAS ABSORBED WITHOUT
 DIFFICULTY. DEALERS SAID SOVIETS HAD CUT BACK SALES.
 DEALERS EXPECTED SLOW PRICE INCREASE OVER LONGER TERM.
 RATES FOLLOWS:

	5/9 (OPEN)	5/13 (CLOSE)
SPOT DOLLAR	2.5295	2.5215
FORWARD DISCOUNTS		
ONE MONTH	0.43	2.28
2 MONTHS	0.76	1.86
3 MONTHS	0.83	1.82
6 MONTHS	1.09	1.74
12 MONTHS	1.72	2.08
SF/DM	107.25	106.75
GOLD	147.5	147.75

3. CAPITAL AND MONEY MARKETS: MARKETS WERE SOMEWHAT
 CALMER. PRICES OF LARGEST BANKS' SHARES, PARTICULARLY
 CREDIT SUISSE, ROSE SLIGHTLY, THOUGH SHARE OF FINANCIAL
 AND INDUSTRIAL COMPANIES DECLINED. SKA INDEX (1959 EQUALS 100)
 FELL 1.7 PERCENT TO 219.4. SWISS NATIONAL BANK PROVIDED
 BANKS 3-MONTH FOREIGN EXCHANGE SWAPS TO HELP LIQUIDITY.
 CALL MONEY RATE FELL FROM 3.5 OPENING TO 1.5 CLOSING.
 AVERAGE YIELD CONFEDERATION BONDS ROSE SLIGHTLY TO 4.16 PER-
 CENT. RATE FOR FIRST CLASS DOMESTIC CUSTOMERS ROSE TO
 4.25 PERCENT. FOUR LARGEST BANKS RAISED INTEREST RATES ON
 3-12 MONTHS TIME DEPOSITS TO 3.5 PERCENT, UP FROM 2.75
 PERCENT.

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4. ECONOMIC OUTLOOK: CREDIT SUISSE HAS REPORTED SLIGHTLY
 IMPROVED, THOUGH STILL CAUTIOUS, OUTLOOK FOR SECOND QTR
 1977. REPORT NOTED THAT AT END FIRST QTR 1977, FIVE
 LARGEST BANKS HAD OUTSTANDING LOANS TO CUSTOMERS OF SF
 76.8 MILLION, UP 14.3 PERCENT OVER FIRST QTR 1976.
 RETAIL SALES INCREASED BY 5.9 PERCENT IN FEB AND 6.4
 PERCENT IN MAR OVER SAME MONTHS IN 1976. ALSO, FIRST
 QTR TRADE DEFICIT WAS SF 496.5 MILLION, COMPARED SF 99.2
 MILLION DEFICIT SAME PERIOD LAST YEAR. APR TRADE DEFICIT
 WAS SF 168.1 MILLION COMPARED TO SF 165 MILLION SURPLUS
 IN APR 1976. INCREASED IMPORTS WERE PRIMARILY RAW
 MATERIALS AND EQUIPMENT.

5. SUPPLEMENTAL 1977 BUDGET: FEDERAL COUNCIL ASKED
 PARLIAMENT TO APPROVE SUPPLEMENT TO 1977 BUDGET OF SF 66.4
 MILLION, INCLUDING RENEWED AUTHORIZATION FOR SF 17.7
 MILLION IN UNSPENT FUNDS FROM UNCOMPLETED 1976 PROJECTS AND
 NEW OBLIGATION AUTHORITY FOR SF 48.7 MILLION. CURRENTLY
 APPROVED 1977 BUDGET OUTLAYS ARE SF 43 BILLION. NO

ADDITIONAL FUNDS WERE REQUESTED FOR EXPENDITURE ITEMS THAT WERE CUT BY PARLIAMENT IN FINAL 1977 BUDGET AUTHORITY. GOVT ALSO PROPOSED RENEWED AUTHORITY FOR SF 12 MILLION IN ECONOMIC STIMULUS SPENDING TO CREATE JOBS THAT WAS UNSPENT LAST YEAR.

6. CHIASSO AFFAIR: CHIASSO AFFAIR WAS SOMEWHAT DEFUSED BY RESIGNATION OF CREDIT SUISSE MANAGING DIR WUFFLI AND TWO OTHER SENIOR OFFICIALS (BERN 2112). HOWEVER, INVESTIGATIONS BY FEDERAL BANK COMMISSION, PUBLIC PROSECUTOR, TAX OFFICIALS, SNB AND CREDIT SUISSE ITSELF ARE STILL UNDERWAY TO DETERMINE RESPONSIBILITY AND ESTIMATE POSSIBLE AMOUNT OF LOSSES. OFFICIALS REPORTED THAT CHIASSO BRANCH GUARANTEED SF 650 MILLION IN DEPOSITS AND AS MUCH AS SF 350 MILLION IN LINES OF CREDIT TO ITALIAN BANKS FOR TEXON INVESTMENTS. BANK COMMISSION REPORT SAID AUDIT CONTROL MEASURES HAD INADMISSABLY FAILED TO DISCOVER IRREGULARITIES OCCURRING

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SINCE 1961 WHEN TEXON WAS SET UP BY CHIASSO BRANCH GEN MANAGER, AND THAT SENIOR ZURICH MANAGEMENT SHOULD HAVE BEEN MORE ATTENTIVE TO WARNINGS IT RECEIVED FROM OTHER BANKS. REPORT ACCUSED TEXON OF ENGAGING IN UNAUTHORIZED BANKING ACTIVITIES; PENALTY IS 6 MONTHS PRISON AND/OR FINE OF SF 50,000. LIECHTENSTEIN AUTHORITIES SAID TEXON WAS RUN BY CHIASSO OFFICIALS; NO LIECHTENSTEIN CITIZEN WAS RESPONSIBLE FOR ITS OPERATIONS. SNB AND BANK COMMISSION ARE STUDYING POSSIBILITY OF SETTING UP BOARD OF INDEPENDENT BANK EXAMINERS TO REPLACE PRESENT SYSTEM OF PRIVATE FIRMS AUDITING BANKS. DAVIS

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